AUG

No. 93-39

In The

Supreme Court of the United States

October Term, 1993

NATIONAL CAR RENTAL SYSTEM, INC.,

Petitioner,

vs.

COMPUTER ASSOCIATES INTERNATIONAL, INC.,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Eighth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether a state law contract action to enforce a right that is not one of the exclusive rights of copyright is preempted by the Copyright Act?

PARTIES

Computer Associates International, Inc. is an independent software company that develops and markets computer software programs. It is a Delaware corporation with headquarters in Islandia, New York. National Car Rental System, Inc. is also a Delaware corporation with headquarters in Minneapolis, Minnesota. It is in the business of leasing and selling vehicles. The subsidiaries of Computer Associates International, Inc. are beneficially wholly-owned, with the exception of ACA Co., Ltd., a Japanese corporation.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

PARTIES ii

TABLE OF AUTHORITIES v

STATEMENT OF THE CASE 1

Factual And Procedural Background 3

The Decision Of The District Court 5

The Decision Of The Eighth Circuit 5

The Facts As Pled By Computer Associates 6

The Preemption Analysis Applied To The Facts 8

SUMMARY OF ARGUMENT 10

ARGUMENT 12

1. National's Radical Contention That The Copyright Act Preempts All Contracts Regarding Copyrightable Subject Matter Contravenes The Act Itself And Has No Support In Judicial Precedent 12

a. There Is No Conflict Between The Circuits 17

b. National's Public Policy Arguments Have Been Rejected By Congress And This Court 23

c. The Legislative History Does Not Support Preemption 26

d. National's "Functional Equivalence" Argument Is Without Support 28

2. National's Contention Of Error In Interpretation Of The Pleadings Is Not A Special Or Important Reason To Justify Review 29

CONCLUSION 30

TABLE OF CONTENTS – Continued

Page

RESPONDENT'S APPENDIX

Excerpt from Final Report of the National Commission on New Technological Uses of Copyrightable Works (CONTU) .....R.App. 1

TABLE OF AUTHORITIES

Page

CASES CITED

Acorn Structures, Inc. v. Swantz Co., 846 F.2d 923 (4th Cir. 1988) 15, 16

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) 25

Baltimore Orioles, Inc., et al. v. Major League Baseball Players Ass'n, 805 F.2d 663 (7th Cir. 1986), *cert. denied*, 480 U.S. 941 (1987) 26

Borden v. Katzman, 881 F.2d 1035 (11th Cir. 1989) 13

Brignoli v. Balch, Hardy & Scheinman, Inc. et al, 645 F. Supp. 1201 (S.D.N.Y. 1986) 19

CMAX/Cleveland, Inc. v. UCR, Inc., et al., 804 F.Supp. 337 (M.D. Ga. 1992) 25

Cohen v. Paramount Pictures Corp., 845 F.2d 851 (9th Cir. 1988) 17

Columbia Pictures Indus., Inc., et al. v. Professional Real Estate Investors, Inc., 866 F.2d 278 (9th Cir. 1989), *aff'd after further proceedings on other grounds*, ___ U.S. ___, 123 L.Ed.2d 611, 113 S.Ct. 1920 (1993) 28

Computer Assoc. Int'l., Inc. v. Altai, Inc., 982 F.2d 693 (2d Cir. 1992) 18, 23

Computer Assoc. Int'l., Inc. v. State Street Bank & Trust Co., 789 F.Supp. 470 (D. Mass. 1992) 16

Data General Corp. v. Grumman Systems Support Corp., 795 F. Supp. 501 (D. Mass. 1992) 18

Del Madera Properties, et al. v. Rhodes & Gardner, Inc., 820 F.2d 973 (9th Cir. 1987) 19

TABLE OF AUTHORITIES – Continued

Page

Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505 (9th Cir. 1985) 17

Gilliam v. American Broadcasting Cos., Inc., 538 F.2d 14 (2d Cir. 1976) 17

Harper & Row Publishers, Inc. v. Nation Enterprises, 723 F.2d 195 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985) 13, 14, 18

Howard v. Sterchi, 725 F.Supp. 1572 (N.D. Ga. 1989) 19

Intown Enterprises, Inc. v. Barnes, 721 F. Supp. 1263 (N.D. Ga. 1989) 18

MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993) 22, 25

Nash v. CBS, Inc., 704 F. Supp. 823 (N.D. Ill. 1989), *aff'd*, 899 F.2d 1537 (7th Cir. 1990) 18

National Bank of Commerce v. Shaklee Corp., 503 F. Supp. 533 (W.D. Tex. 1980) 17

G.S. Rasmussen & Assocs., Inc. v. Kalitta Flying Service, Inc., 958 F.2d 896 (9th Cir. 1992), *cert. denied*, 61 U.S.L.W. 3818 (1993) 21, 22

Rey v. Lafferty, 990 F.2d 1379 (1st Cir. 1993), *pet. for cert. filed* June 24, 1993 21

Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191 (7th Cir. 1987) 27

Schuchart & Assoc. v. Solo Serve Corp., 540 F.Supp. 928 (W.D. Tex. 1982) 18

Smith v. Weinstein, 578 F.Supp. 1297 (S.D.N.Y.), *aff'd*, 738 F.2d 419 (2d Cir. 1984) 19

TABLE OF AUTHORITIES – Continued

Page

Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984) 12, 16, 23, 28

S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081 (9th Cir. 1989) 17, 18, 20, 21

Stillman v. Leo Burnett Co., Inc., 720 F. Supp. 1353 (N.D. Ill. 1989) 18

Trandes Corp. v. Guy F. Atkinson Co., ___ F.2d ___, 27 U.S.P.Q.2d 1014 (4th Cir. 1993) 18

Underhill v. Shenk, 238 N.Y. 7, 143 N.E. 773 (1924) 19

United States v. King Features Entertainment, Inc., 843 F.2d 394 (9th Cir. 1988) 24

United States Naval Institute v. Charter Communications, 17 U.S.P.Q.2d 1063 (S.D.N.Y. 1990), *aff'd in part and rev'd in part*, 936 F.2d 692 (2d Cir. 1991) 20

W.G.N. Continental Broadcasting Co. v. United Video, Inc., 693 F.2d 622 (7th Cir. 1982) 19

Youakim v. Miller, 425 U.S. 231 (1976) 22

STATUTES CITED

17 U.S.C. § 102(a)(5) 16

17 U.S.C. § 102(a)(8) 16

17 U.S.C. § 106 ..... *passim*

17 U.S.C. § 106(3) 7, 8, 11, 14, 28

17 U.S.C. § 117 25

17 U.S.C. § 301 ..... *passim*

17 U.S.C. § 301(a) 5, 12, 13

TABLE OF AUTHORITIES – Continued

Page

17 U.S.C. § 301(b) 2

17 U.S.C. § 301(b)(3) 10, 13, 14, 15, 24, 26

SUPREME COURT RULES CITED

Supreme Court Rule 10.1 29

OTHER AUTHORITIES CITED

Abrams, "Copyright, Misappropriation and Preemption: Constitutional and Statutory Limits to State Law Protection," 11 *Supreme Court Rev.* 509 (1983) 21, 26, 27

Architectural Works Copyright Protection Act, Act of Dec. 1, 1990, Pub. L. 101-650, 104 Stat. 509, § 706(1) 16

Computer Software Protection Act, Pub. L. No. 96-517, § 117, 94 Stat. 3028 (1980) (17 U.S.C. § 117) (1988) 23, 24

Katz and Arnold, "*MAI v. Peak:* An Unprecedented Opinion With Sparse Analysis," 10 *The Computer Lawyer* 18 (May 1993) 22

National Commission on New Technological Uses of Copyrighted Works, Final Report (1979) 24

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To The United States Court Of Appeals
For The Eighth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

STATEMENT OF THE CASE

This is a dispute between a licensor of software, Computer Associates International, Inc. ("Computer Associates"), and its licensee, National Car Rental System, Inc. ("National"), over the enforceability of a contract term restricting the use to which the licensee can put the licensed work. In its petition for *certiorari*, National urges the Court to adopt the radical position that all claims to enforce terms of license agreements involving copyrighted works are preempted by federal copyright

law. Petitioner would have the Court apply the preemption provision of the Copyright Act, even when the contractual rights at issue do not involve any of the exclusive rights provided to a copyright owner under the Copyright Act of 1976, 17 U.S.C. § 106. In essence, National seeks judicial repeal of the "safe harbor" provision of the preemption clause of the Copyright Act, 17 U.S.C. § 301(b).

There is no conflict between the decision of the Eighth Circuit and either the Copyright Act or the decisions of the other Circuits. Consistent with the well-developed body of law of copyright preemption, the Eighth Circuit's decision stands for the principle that commercial entities may order their affairs privately and by contract grant rights and impose obligations in addition to the exclusive rights granted to copyright owners by the Copyright Act. National invites the Court to misinterpret earlier decisions to expand copyright preemption beyond its Congressionally created boundaries.

National also ignores the fact that the Eighth Circuit's ruling came on a motion for judgment on the pleadings, not a fully developed factual record. The Eighth Circuit did not hold that Computer Associates is entitled to recover on its contract claims but only that its pleading – properly construed in its favor as the non-moving party – could be read to allege a claim not preempted by the Copyright Act. The court held, therefore, that the claim should not be dismissed without giving Computer Associates an opportunity to prove it. As the petition for *certiorari* plainly reveals, petitioner's core contention is that the Court of Appeals misconstrued Computer Associates' pleading. They have offered no reason – and there

is none – why the construction of that pleading on a motion to dismiss is a question that warrants the plenary review of this Court.

Factual And Procedural Background. Proper consideration of the petition for *certiorari* requires a more expansive recital of the facts and procedural history than that submitted by National. National is a licensee of six computer software programs of Computer Associates ("the Licensed Programs"). App. at 68, 85. National's permission to use the Licensed Programs is stated in a 1990 License Agreement.[1] Previously, there had been various separate license agreements between National and predecessor companies to Computer Associates regarding each Licensed Program. By its terms, the License Agreement prohibits National from using the Licensed Programs except to process its own data in its own internal operations.[2] App. at 69.

In 1990, National retained Electronic Data Systems Corporation ("EDS"), an independent computer services vendor, to provide data processing services. Computer Associates, National, and EDS entered into a separate agreement ("the Supplement Addendum") to permit EDS to possess and use the Licensed Programs consistent with the terms of the 1990 License Agreement and the Supplement Addendum. App. at 63, 64. National and EDS

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[1] Although signed in 1991, the Agreement took effect on December 31, 1990.

[2] An accompanying Order Form similarly provided that "use of the Licensed Program[s] is restricted to the internal operations of Licensee and for the processing of its own data." App. at 82.

agreed that EDS would use the Licensed Programs only for the benefit of National, subject to the terms and conditions of the 1990 License Agreement, and solely "to process data of Licensee and in no event for the processing of data . . . of any third party other than Licensee." App. at 64.

Contrary to the license agreements and the Supplement Addendum, National used (directly and later through EDS) the Licensed Programs to process data for third parties, including Tilden Car Rental, Inc. ("Tilden"), an independent Canadian company, and Lend Lease Trucks, Inc. ("Lend Lease"), an independent United States company and former subsidiary of National. Computer Associates objected to National's use of the Licensed Programs to process data for Tilden and Lend Lease. National thereafter commenced this action, requesting a declaratory judgment that its use of the programs neither infringed Computer Associates' copyrights nor breached any license agreement. In its complaint, National admitted to using the Licensed Programs in its business activities relating to Tilden and Lend Lease. App. at 44.

Computer Associates alleged in its First Counterclaim, invoking supplemental jurisdiction, that National was permitted to use the Licensed Programs only to process its own data, and that National breached (directly and subsequently through EDS) the license agreements and the Supplement Addendum by using the Licensed Programs to process data of third parties. App. at 57. National's breach was the use of the Licensed Programs to provide others with data processing services, in violation of its agreements with Computer Associates.

The Decision Of The District Court. Relying on the preemption provision of the Copyright Act, 17 U.S.C. § 301(a), National moved for judgment on the pleadings and the dismissal of the First Counterclaim under Federal Rule of Civil Procedure 12(c). The motion was granted. The District Court noted that "National fails entirely to expound upon" its contention that the right sought to be enforced by Computer Associates through its breach of contract counterclaim is equivalent to one or more of the exclusive rights of a copyright owner as specified in § 106 of the Copyright Act. App. at 30. The District Court *sua sponte* concluded that Computer Associates, "through its breach of contract counterclaim, seeks to enforce a right which is not qualitatively different from the distribution right enumerated in section 106(3)." App. at 32.

The District Court read the allegations of Computer Associates' counterclaim to "reflect the existence of a lease arrangement" between National and third parties "to use the licensed software in exchange for payment." App. at 31. The District Court stated that:

> Construed as true, CA's allegations reflect the existence of a lease agreement between National and Lend Lease and Tilden: National has permitted Lend Lease and Tilden to use the licensed software in exchange for payment.

Id.

The Decision Of The Eighth Circuit. The appeal to the Eighth Circuit and this petition for *certiorari* arise from a motion for judgment on the pleadings. Consequently, the Eighth Circuit first reviewed whether the District Court had fairly read the pleadings of Computer

Associates. The copyright preemption analysis was then applied to the facts as pled in Computer Associates' First Counterclaim. On appeal, the Eighth Circuit concluded that the District Court failed to give Computer Associates the benefit of all reasonable inferences from the pleadings and misinterpreted the law of copyright preemption. App. at 2.

The Facts As Pled By Computer Associates. The Eighth Circuit applied the well-established rule, upon a motion for judgment on the pleadings, that the "court must accept as true all facts pled by the non-moving party, and grant all reasonable inferences from the pleadings in the non-moving party's favor." App. at 4-5. Consequently, the factual basis for decision was the pleadings themselves.

Applying this rule, the Eighth Circuit's analysis and decision was made against a different factual background than the one suggested by petitioner. Although National asserts that Tilden is a "National affiliate" and emphasizes the status of Lend Lease as a "former wholly-owned subsidiary of National" (Petition at 3), the Eighth Circuit regarded Tilden and Lend Lease as third parties. As the Eighth Circuit noted, Computer Associates:

> . . . subsequently determined that National had been using the programs to process the data of third parties including [Lend Lease] and [Tilden] in violation of the license agreement, and that such use had continued through EDS under the supplement addendum.

App. at 3. It also directly addressed Computer Associates' contention that National had "permitted the use" of the

Licensed Programs for the processing of data of third parties. The Eighth Circuit concluded:

> [W]e believe that such a pleading can be read, in context, to allege that National permitted EDS to use the programs for the benefit of Lend Lease and Tilden, with no copies ever going to Lend Lease and Tilden. EDS, however, was authorized under the supplement addendum to have a copy of the program.

App. at 9-10.

Accepting the facts as pled by Computer Associates, the Eighth Circuit concluded that the:

> . . . [p]leadings cannot be read to allege that National actually distributed a copy of the program to Lend Lease or Tilden. Instead, [Computer Associates'] pleadings must be read to allege that National breached their contract by using the program itself, or through EDS, to process data for Lend Lease and Tilden. We then examine whether so construed, the cause of action is preempted.

App. at 6.[3]

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[3] Because the specific basis for the determination of preemption, the § 106(3) right of distribution, was first articulated by the District Court, Computer Associates made a motion to reconsider to demonstrate the error in the District Court's factual inference. As part of that motion, Computer Associates submitted evidence that National had admitted that neither Tilden nor Lend Lease had access to the Licensed Programs. As the Eighth Circuit noted, National later "admitted that it never gave copies of the programs to Lend Lease or Tilden but rather processed data for those companies on its equipment." App. at 9, n. 2. The Eighth Circuit reversed the District Court's original

The Preemption Analysis Applied To The Facts. In accepting the facts as pled, the Eighth Circuit noted that the distribution right of § 106(3) grants to the copyright owner the "exclusive right publicly to sell, give away, rent or lend any *material embodiment* of his work". The distribution right "is the right to distribute *copies*." App. at 8 (emphasis original). The Eighth Circuit concluded that the First Counterclaim for breach of contract could not reasonably be read as an allegation of wrongful distribution of copies of the software in violation of § 106(3) of the Copyright Act. Computer Associates did not allege that National gave copies of the Licensed Programs to Tilden and Lend Lease; it alleged instead that National used (directly and through EDS) the Licensed Programs for the benefit of Tilden and Lend Lease by processing the data of those third parties.

The Eighth Circuit found that the District Court erred in concluding that National had entered into a lease with either Lend Lease or Tilden that violated § 106(3) because the exclusive right to lease a copyrighted work is derivative of the distribution right. In the words of the Eighth Circuit, "the right to lease must be the right to lease a copy. Because the pleadings cannot properly be read to allege distribution of a copy, neither can they be read to allege a lease of a copy." App. at 10. Given that the pleadings could not be read to allege an unauthorized distribution within the meaning of the Copyright Act, the Eighth Circuit stated the issue for decision:

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ruling and did not need to consider the District Court's disposition of the motion for reconsideration. *Id*.

> We must consider whether a limitation on the uses to which a licensee may put a licensed work are preempted even though those uses do not involve the exclusive copyright rights.

App. at 11.

The Eighth Circuit correctly concluded that "the contractual restriction on use of the programs constitutes an additional element making this cause of action not equivalent to a copyright action." App. at 13. This conclusion was narrowly drawn, limiting itself to the facts as pled by Computer Associates. "Because we decide that the specific contract right [Computer Associates] seeks to enforce is not equivalent to any of the copyright rights, we do not need to decide whether a breach of contract claim based on a wrongful exercise of one of these exclusive copyright rights is preempted." App. at 19-20, n. 6.

The "extra element" in Computer Associates' claim, making it different from and not equivalent to a copyright claim, was not the license agreements themselves. National unfairly suggests that the "extra element" in the Eighth Circuit's analysis was the contractual nature of the restriction. (See, Petition at 18) The Eighth Circuit's decision does *not* stand for the proposition that all contract actions involving copyrightable subject matter are outside the preemptive scope of the Copyright Act. App. at 19-20, n. 6.

Rather, the "extra element" upon which the Eighth Circuit based its decision was the contractual restriction on *use* for the benefit of unlicensed third parties, which was not a restriction of one of the exclusive rights of

copyright. The Eighth Circuit was clear regarding the basis for its decision:

> Instead, on this posture, CA must be read to claim that National's or EDS's processing of data for third parties is the prohibited act. None of the exclusive copyright rights grant CA that right of their own force. Absent the parties' agreement, this restriction would not exist. Thus, CA is alleging that the contract creates a right not existing under the copyright law, a right based upon National's promise, and that it is suing to protect that contractual right. *The contractual restriction on use of the programs constitutes an extra element that makes this cause of action qualitatively different from one for copyright.*

App. at 16 (emphasis added).

SUMMARY OF ARGUMENT

National invites the Court to adopt a most extreme position, that the Copyright Act "federalizes" all contracts involving copyrightable subject matter. (See, Petition at 9, 13, 15) Its argument finds no support in the decisions of any Circuit and is contrary to the legislative history of the Copyright Act. Indeed, to adopt National's position would be to judicially repeal § 301(b)(3), the "safe harbor" provision of the Copyright Act. The Eighth Circuit properly rejected National's radical contention. App. at 12-13. There is no conflict among the Circuits on this matter; no decision federalizes the law of licenses of copyrightable works in the manner urged by National.

Paradoxically, National challenges the Eighth Circuit's ruling that the contractual restriction on use of the Licensed Programs was an additional element, but not the underlying conclusion that the contractual restriction on use is not included among the exclusive rights of § 106 provided to Computer Associates as a copyright owner. Instead, National argues, without support, that the Copyright Act should apply to acts that are the "functional equivalents" of a violation of the § 106(3) right. (See, Petition at 23) The notion that the Copyright Act should be extended to the "functional equivalents" of § 106 rights has been rejected by other Circuits and is contrary to previous decisions of the Court. The Eighth Circuit's decision rejecting National's argument is in accord with the law of copyright preemption.

National attacks the reasonableness, upon the motion for judgment on the pleadings, of the Eighth Circuit's reading of the First Counterclaim for breach of contract. Yet, there is no contention that the Eighth Circuit erred when it applied the rule that all facts pled by Computer Associates should be accepted as true and gave Computer Associates the benefit of all reasonable inferences from those pleadings. This challenge to the reasonableness of the conclusions drawn from the pleadings is not a special or important reason to justify review on writ of *certiorari*.

ARGUMENT

1. National's Radical Contention That The Copyright Act Preempts All Contracts Regarding Copyrightable Subject Matter Contravenes The Act Itself And Has No Support In Judicial Precedent

Copyright law is wholly statutory. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984). The preemption provision states that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by § 106[4] in works of authorship . . . are governed exclusively by the Copyright Act." 17 U.S.C. § 301(a).

When claims are not equivalent they are not preempted. The Copyright Act does not preempt state contract law in every instance when a contract relates to a

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[4] The exclusive rights specified in § 106 are:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

copyrighted work. *Borden v. Katzman*, 881 F.2d 1035, 1038 (11th Cir. 1989). When a state law claim requires an extra element not required to prove a copyright violation, the rights involved are not equivalent and the state law claim is not preempted.[5]

Parsed to its essentials, § 301 establishes a bipartite test for the preemption of state statutory or common law claims. The first consideration is that "the work of authorship in which rights are claimed must fall within the 'subject matter of copyright' as defined in §§ 102 and 103 of the Act." *Harper & Row Publishers, Inc. v. Nation Enterprises*, 723 F.2d 195, 200 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985). That computer programs are such works of authorship is not in dispute. The second consideration is whether the state law claim is based on legal or equitable rights equivalent to any of the exclusive rights within the general scope of copyright as specified by § 106. This requirement has been construed to mean that:

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[5] The "safe harbor" provision, 17 U.S.C. § 301(b)(3), specifically preserves non-equivalent state law rights:

> Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any state with respect to –
>
> . . .
>
> . . .
>
> (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by § 106.

§ 301(b)(3) thus is the mirror image of the last sentence of 301(a). When a state law right is not equivalent to a § 106 right, it is never preempted.

> When a right as defined by state law may be abridged by an action which, in and of itself, would infringe one of the exclusive rights, the state law in question must be deemed preempted. Conversely, when a state law violation is predicated upon an act incorporating elements beyond mere reproduction or the like, the rights involved are not equivalent and preemption will not occur.

Harper & Row Publishers, Inc. v. Nation Enterprises, supra, 723 F.2d at 200 (citations omitted). If the state law claim is not based on rights equivalent to a § 106 right, the claim is preserved by the "safe harbor" of § 301(b)(3).

The Eighth Circuit concluded that Computer Associates' allegation of breach of contract was not equivalent to a claim of violation of § 106(3) because the License Agreement imposed a restriction on National not imposed by the Copyright Act; that restriction was the "extra element." App. at 13. The remaining question, which the Eighth Circuit disposed of easily, was "whether a limitation on the uses to which a licensee may put a licensed work are preempted even though those uses do not involve the exclusive copyright rights." App. at 11. Under accepted preemption doctrine, that question answers itself: the only claims preempted by § 301 are those "equivalent" to rights specified in § 106. The "safe harbor" of § 301(b)(3) preserves all state rights "that are not equivalent."

In its petition, National advocates the unprecedented position that the Copyright Act preempts all claims by a licensor of a copyrighted work that a licensee's use of that work exceeds the authorized scope of the license

agreement. In National's view, the fact that the subject matter of the license is copyrightable is sufficient in itself to make any claim of unauthorized use fall within the preemption provision of the Copyright Act. (See, Petition at 18) National entirely disregards the second step of the analysis, which is whether the contractually prohibited use is qualitatively equivalent to any of the exclusive rights of copyright. National's argument is a frontal assault on § 301(b)(3).

Neither the decisions interpreting § 301 of the Copyright Act nor the decisions relied upon in the petition – few of which even involve preemption – support National's position. There is no conflict of authority on this point among the Circuits. Further, there is no support in either public policy or the legislative history of the Copyright Act for National's extreme, and extremely ill-advised, argument.

A claim for unauthorized "use" of copyrighted material in violation of a license agreement, without an allegation of unauthorized copying, is not copyright infringement. *See, e.g., Acorn Structures, Inc. v. Swantz Co.*, 846 F.2d 923, 926 (4th Cir. 1988) (use without copying of architectural drawings was a violation of contract, not copyright infringement). In *Acorn*, the plaintiff entered into a "design agreement" with the defendant for performance of architectural services, and the defendant received an architectural drawing. Although the design agreement did not commit the defendant to purchase the building materials from Acorn, the agreement prohibited the defendant from using or copying the drawings if the defendant did not make a subsequent purchase from Acorn. In violation of that agreement, the defendant used

the drawings – apparently without making copies – to build a house. *Id.* at 924-925.

The defendant's use of the drawings was a breach of contract – not a copyright infringement – and gave rise to a claim not preempted by the Copyright Act. *Id.* at 926.[6] Acorn's claim arose from a contract provision prohibiting *use* of the copyrighted materials. Similarly, Computer Associates does not allege distribution of its software by National; Computer Associates alleges use of the software in violation of license agreements.

As the Eighth Circuit correctly noted, limitations on the otherwise authorized use of copyrighted materials "must be derived initially from the license agreements, not copyright law." *Computer Assoc. Int'l., Inc. v. State Street Bank & Trust Co.*, 789 F.Supp. 470, 472 (D. Mass. 1992). Previous decisions of this Court state the same rule: unauthorized uses of copyrighted works are not necessarily infringements. In *Sony Corp. of America v. Universal City Studios, Inc., supra* at 464 U.S. 447, the Court said:

> Even unauthorized uses of a copyrighted work are not necessarily infringing. An unlicensed use of the copyright is not an infringement

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[6] In 1990, Congress enacted the Architectural Works Copyright Protection Act of Dec. 1, 1990, Pub.L. 101-650, 104 Stat. 5089, § 706(1), creating a new category of copyrightable ownership: architectural works. 17 U.S.C. § 102(a)(8). Prior to the enactment of the Architectural Works Copyright Protection Act, architectural drawings were protected as "pictorial, graphic, and sculptural works," 17 U.S.C. § 102(a)(5). After 1990, under the statute as amended by Congress, construction of the home, based on the plans, would be a copyright infringement.

unless it conflicts with one of the specific exclusive rights conferred by the copyright statute. (citations omitted)

a. There Is No Conflict Between The Circuits

National's extreme position, that whenever a licensee is charged with using copyrighted works beyond the scope of a license the claim must be asserted under the Copyright Act, is not supported by any of the decisions upon which it relies. (Petition at 15) As the Eighth Circuit noted, most of the cases relied upon by National do not involve the preemption provision of the Copyright Act. App. at 12. Moreover, all of the decisions upon which National relies involved violations of license agreements which also were infringements of one of the exclusive copyright rights. *Id.* at 12-13.[7] Rather than stating a rule, as National argues, that any use exceeding the license is infringing, "these cases establish that engaging in one of

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[7] Each of the cases upon which National relies, including *S.O.S. Inc. v. Payday Inc.*, 886 F.2d 1081 (9th Cir. 1989), involves the unauthorized preparation of derivative works. *See, e.g., Cohen v. Paramount Pictures Corp.*, 845 F.2d 851-852 (9th Cir. 1988) (company with a right to record musical composition for film and display film on television also sold and rented video cassettes to general public); *Gilliam v. American Broadcasting Cos., Inc.*, 538 F.2d 14, 18 (2d Cir. 1976) (defendant televised edited version of program without authorization); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 512 (9th Cir. 1985) (defendant staged musical revue in manner not allowed under the license); *National Bank of Commerce v. Shaklee Corp.*, 503 F. Supp. 533, 544 (W.D. Tex. 1980) (defendant inserted unauthorized advertising material into a published work).

the acts reserved to the copyright holder under § 106, without a license to do so, is infringing." App. at 13.

The Eighth Circuit's analysis is entirely consistent with an unbroken line of Circuit Courts of Appeal decisions regarding preemption. "[W]hen a state law violation is predicated upon an act incorporating elements beyond mere reproduction or the like, the rights involved are not equivalent and preemption will not occur." *Harper & Row Publishers, Inc. v. Nation Enterprises, supra*, 723 F.2d at 200. The "extra element" necessary to prove a state law claim must be such as to render the claim "qualitatively different" from a copyright claim.[8] Indeed, even the decision National relies upon, *S.O.S. Inc. v. Payday Inc.*, 886 F.2d 1081 (9th Cir. 1989), recognizes that trade secret claims are not preempted by the Copyright Act. *Id.* at 886 F.2d 1090.

Where, as in this license, the contract grants rights to the parties other than those granted by the copyright

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[8] *See, e.g., Trandes Corp. v. Guy F. Atkinson Co.*, ___ F.2d ___, 27 U.S.P.Q. 2d 1014, 1017-18 (4th Cir. 1993) (trade secrets not preempted); *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992) (trade secrets); *Data General Corp. v. Grumman Systems Support Corp.*, 795 F. Supp. 501, 506-507 (D.Mass. 1992) (conversion claim based on retention of physical copies of programs not preempted); *Intown Enterprises, Inc. v. Barnes*, 721 F. Supp. 1263, 1267 (N.D.Ga. 1989) (state law "passing off" claim not preempted); *Stillman v. Leo Burnett Co., Inc.*, 720 F. Supp. 1353, 1361-1363 (N.D.Ill. 1989) (state law claim for "false representations" not preempted); *Nash v. CBS, Inc.*, 704 F. Supp. 823, 832-33 (N.D.Ill. 1989), *aff'd*, 899 F.2d 1537 (7th Cir. 1990) (state consumer protection act claim not preempted); *Schuchart & Assoc. v. Solo Serve Corp.*, 540 F. Supp. 928, 945 (W.D. Tex. 1982) (claim for *quantum meruit* not preempted).

laws, the contract claims are not equivalent to copyright claims. *See, e.g., Howard v. Sterchi*, 725 F.Supp. 1572, 1579 (N.D. Ga. 1989) (failure to attribute the copyrighted work to another was part of a contract claim, and not fundamentally equivalent to a copyright claim); *Smith v. Weinstein*, 578 F.Supp. 1297, 1304 (S.D.N.Y.), *aff'd*, 738 F.2d 419 (2d Cir. 1984) (a contract to pay for ideas and not disclose them is qualitatively different than a copyright infringement action). Where "what the plaintiff complains of is the breach of a duty [that] would exist though no copyright law had ever been created" there is no preemption. *Underhill v. Shenk*, 238 N.Y. 7, 143 N.E. 773, 775 (1924) (Cardozo, J.) (applying Copyright Act of 1909). What Computer Associates complains of is National's breach of contract, not the violation of a § 106 right.

National gains no further support from the additional decisions relied upon in its petition. Like the cases cited to the Eighth Circuit, *W.G.N. Continental Broadcasting Co. v. United Video, Inc.*, 693 F.2d 622 (7th Cir. 1982), is not a preemption case. In *W.G.N.*, the Seventh Circuit found that it was copyright infringement for a licensee to telecast an unauthorized edited version of the underlying work – to prepare a derivative work in violation of § 106. *Id.* at 626. *Del Madera Properties, et al. v. Rhodes & Gardner, Inc.*, 820 F.2d 973 (9th Cir. 1987), is a preemption case, but the preempted state claims of unfair competition and unjust enrichment were based on an unlawful distribution of copyrighted material – again, a § 106 violation. *Id.* at 977. In *Brignoli v. Balch, Hardy & Scheinman, Inc. et al*, 645 F. Supp. 1201 (S.D.N.Y. 1986), also a preemption case, the court characterized the claims defendants sought to dismiss as "essentially breach of contract claims" and on

that basis refused to dismiss them – finding that the covenants between the parties saved the claims from preemption. *Id.* at 1205. The *Brignoli* court also found that the fraud, trade secrets, and palming off claims were not preempted because each of them presented an "extra element" making them qualitatively different from a copyright claim. *Id.* at 1205-06.

Indeed, *S.O.S., supra*, the centerpiece of National's petition, is a preemption case only to the extent that the Ninth Circuit concluded the Copyright Act did *not* preempt S.O.S.'s trade secrets claims. 886 F.2d at 1090. Like the other decisions relied upon by National, *S.O.S.* stands at most for the proposition that engaging in an act reserved to the copyright holder under § 106, without a license to do so, is an infringement. App. at 13.[9] *S.O.S.* is consistent with the Eighth Circuit's decision, which held only that a claim based on a contract term restricting the use of a licensed product, not involving a § 106 right, is not preempted. Contrary to the position taken by National, there is no conflict between the Ninth Circuit and the Eighth Circuit decision in this case.

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[9] As one court has observed, *S.O.S.* does "not support" the very proposition for which it is relied upon by National – the proposition that any violation of a copyright license term necessarily constitutes a copyright infringement. *United States Naval Institute v. Charter Communications*, 17 U.S.P.Q. 2d 1063, 1065 (S.D.N.Y. 1990), *aff'd. in part and rev'd in part*, 936 F.2d 692 (2d Cir. 1991). Indeed, although the *S.O.S.* court concluded as a matter of law that the license was exceeded when software was copied and a modified version prepared, it remanded for trial the question whether the modified version was substantially similar to the copied work. 886 F.2d 1089, n. 11.

National criticizes the Eighth Circuit's reliance on *G.S. Rasmussen & Assocs., Inc. v. Kalitta Flying Service Inc.*, 958 F.2d 896 (9th Cir. 1992), *cert. denied*, 61 U.S.L.W. 3818 (1993), also a Ninth Circuit decision. That reliance was limited to the self-evident propositions that "federal copyright law governs only copying," (App. 15) and that when there is no allegation that a § 106 right has been violated there is no basis for copyright preemption. *S.O.S.* is not inconsistent with *G.S. Rasmussen* or with the Eighth Circuit's decision.

National makes much of the Solicitor General's reservations about *G.S. Rasmussen*. Those reservations were based on the possible extension of the decision to circumstances of misappropriation that did not involve, as they did in that case, a false representation. App. at 196.[10] In this case, where the restrictions on use are contractual in nature, and involve privately owned materials rather than government-issued documents, the Solicitor General's concerns are inapposite. Parties can, by contract, agree to limit or modify the uses to which they put a copyrighted work without fear of creating a conflict between state and federal authority. *See, e.g., Rey v. Lafferty*, 990 F.2d 1379, 1392 n.10 (1st Cir. 1993), *pet. for cert. filed* (June 24, 1993) (noting that although a copyright owner has no "moral right" to control the quality of copyrighted depictions of her work under copyright law,

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[10] As the legislative history of § 301 reveals, misappropriation was "the primary target of preemption." Abrams, "Copyright, Misappropriation, and Preemption: Constitutional and Statutory Limits On State Law Protection," 11 *Supreme Court Rev.*, 509, 543 (1983).

"she may insist, contractually, on approval provisions"). The Copyright Act does not make those private agreements unenforceable.

The Ninth Circuit recently re-emphasized the requirement that a claim of copyright infringement requires an allegation of copying. In *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993), the Ninth Circuit took pains to conclude that a computer servicing company had made unauthorized copies of a computer program as an essential step in servicing the copyright owner's customers. 991 F.2d at 517-519. The linchpin of the *MAI Systems* decision was that a copy had been created – a § 106 right had been violated – and the violation of that § 106 right was required to give rise to a claim of copyright infringement.[11]

In as much as National's petition for writ of *certiorari* is based on arguments that conflict with the prior decisions of the Court and which find no support in the uniform decisions of the Circuit Courts of Appeal, there is no reason to grant the petition.

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[11] Although consistent with *S.O.S., G.S. Rasmussen*, and other Ninth Circuit decisions, *MAI Systems* has been criticized as too generous in its interpretation of the meaning of the word "fixed" as used to define a "copy" by the Copyright Act. *See*, Katz and Arnold, "*MAI v. Peak*: An Unprecedented Opinion With Sparse Analysis," 10 *The Computer Lawyer* 18, 19-20 (May 1993). Of course, the § 106 right at issue in *MAI Systems* was § 106(1), the right to make copies. Section 106(1) is not at issue in this case. Claims not raised below cannot be asserted in this Court for the first time. *Youakim v. Miller*, 425 U.S. 231, 234 (1976).

b. National's Public Policy Arguments Have Been Rejected By Congress And This Court

National's two main arguments – that licenses of copyrightable subject matter must be governed by a uniform body of federal law (Petition at 9), and that a licensee charged with using copyrighted works beyond the scope of a license is entitled to assert standard copyright defenses (Petition at 15) – are conclusions in search of justification. Parties to a copyright license always have been free to order their affairs privately through the negotiation of contractual rights and obligations. The exclusive rights of copyright reflect the legislative balance between the public's interest and the private interests of the author. *See, Sony Corp. v. Universal City Studios, Inc., supra* at 464 U.S. 431-32. The Copyright Act does not address the unlimited private interests that may be present between commercial entities; those interests are resolved through state contract law.[12]

Congress addressed computer technology specifically when it enacted the Computer Software Protection Act,

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[12] Although National contends that copyright law should govern to the exclusion of state contract law, it is not clear if National contends that a licensor of a copyrightable work should have no rights except the five exclusive rights of § 106, or if breach of every term of a license should be copyright infringement. Under the former alternative, there could be no private ordering of commercial interests. License terms regarding secrecy, for example, would be nullified, contrary to the settled law that trade secret claims are not preempted by the Copyright Act. *See, e.g., Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 715-21 (2d Cir. 1992). Under the latter alternative, private parties would determine by their agreement the scope of the Copyright Act. Both results are absurd.

Pub. L. No. 96-517, § 117, 94 Stat. 3028 (1980) (17 U.S.C. § 117) (1988), which creates certain affirmative defenses exclusively for owners of copies of software. The Commission which drafted the Computer Software Protection Act – three years after § 301 was enacted into law as part of the Copyright Act of 1976 – explicitly recognized that parties were free to modify their rights to copyrightable material by contract. "Should proprietors feel strongly that they do not want rightful possessors of copies of their programs to prepare such adaptations", the Commission noted, "they could, of course, make such a desire a contractual matter." National Commission on New Technological Uses of Copyrighted Works ("CONTU"), Final Report at 33. Respondent's Appendix 3. On precisely the same reasoning, National's promise not to use the Licensed Programs to process data for third parties is enforceable under state law. Licenses relating to copyrightable subject matter are governed by state law principles of contract where those principles do not conflict with § 106 rights.[13] *See, e.g., United States v. King Features Entertainment, Inc.*, 843 F.2d 394, 398 (9th Cir. 1988) (applying state rules of contract interpretation to determine the meaning of a copyright license).

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[13] National's argument that a federalization of license agreements of copyrightable subject matter is necessary for "uniformity and predictability" fails of its own weight. (Petition at 9) Computer Associates submits that the parties to a license agreement can more clearly predict the terms of their relationship by the terms of the license agreement itself. Moreover, National's argument was rejected by Congress when it enacted the "safe harbor" provision of the Copyright Act, 17 U.S.C. § 301(b)(3).

National's argument that a licensee is entitled to assert standard copyright defenses in every dispute is equally without merit.[14] As a preliminary matter, neither National nor any licensee is entitled to the defenses of § 117, relating to the making of copies of software for internal use. Those defenses are available exclusively to *owners* of copies of computer programs, not to licensees like National. *MAI Systems Corp. v. Peak Computer, Inc.*, *supra* at 991 F.2d at 518 n.5; *CMAX/Cleveland, Inc. v. UCR, Inc., et al.*, 804 F.Supp. 337, 356 (M.D. Ga. 1992).

Moreover, National's insistence that a licensee should be entitled to assert a defense of non-copyrightability to a routine breach of contract claim is squarely at odds with common sense and the Court's decision in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979). In *Aronson*, the Court held that state contract law is not preempted by federal patent law, and that patent law does not preclude enforcement of a license agreement for an unpatented – and unpatentable – device. State law is not displaced, the Court ruled, merely because a contract relates to intellectual property that may not be subject to the protections of federal law. 440 U.S. at 262-63. If the parties agree to a license, regardless of whether a patent issues, enforcement of that license under state law does not stand as an obstacle to the accomplishment of the full purposes and objectives of Congress. Consequently, state law will govern. *Id.* State law also properly governs National's agreements not to use Licensed Programs from Computer

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[14] National would, for example, impose on *all* contracts relating to copyrighted works a three-year statute of limitations, even if the parties contractually agreed to a different period.

Associates to process data for third parties, precisely because copyright law does not.

c. The Legislative History Does Not Support Preemption

The Eighth Circuit properly rejected National's argument that Congress, by deleting from the final version of § 301(b)(3) a list of specific examples of non-preempted causes of action, including breach of contract, intended those causes of action not to be preempted. App. 16-19. As the Eighth Circuit noted, the legislative history of § 301(b)(3) indicates that the deletion of that list of examples was not evidence of Congressional intent to withdraw the exemption from preemption for those causes of action. The ambiguous, if not contradictory, nature of the House debate on the deletion, and the complete absence of Senate debate, leads instead to the conclusion that "almost any interpretation of the concept of equivalent rights can be inferred from the legislative history." *Baltimore Orioles, Inc., et al. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 676-77 n.25 (7th Cir. 1986), *cert. denied*, 480 U.S. 941 (1987). "In determining whether a particular right is equivalent to a copyright, we place little weight on the deletion of the list of non-equivalent rights." *Id.*

The Justice Department's objections to the inclusion of a list of examples of non-preempted claims under § 301(b)(3) were based entirely on its concerns regarding state law misappropriation claims. Abrams, "Copyright, Misappropriation, and Preemption: Constitutional and Statutory Limits of State Law Protection," 11 *Supreme Court Rev.* 509, 537-550 (1983). Indeed, one scholar views

the inclusion of the breach of contract example in the Justice Department's letter triggering deletion as evidence that breach of contract claims would *not* be preempted. *Id.* at 546.

Inclusion of contract actions in the list of claims automatically preempted by the Copyright Act, as National would have it, would mean that *no* license agreement involving a copyrighted work would be enforceable, except by terms directly addressed in the Copyright Act. On that view, owners of copyrighted works are wasting their time with license agreements – they should rely directly and exclusively on the Copyright Act because they could not use a contract to establish rights not already protected by the Act itself. Even National implicitly recognizes the absurdity of that position. It acknowledges that, "License agreements are perhaps the most important means by which the public obtains a right to use computer software . . . " (Petition at 17) Further, National's argument logically requires that simple contractual disputes involving unpaid royalties would be transformed into copyright disputes – even though National admits that a claim for breach of an agreement to pay royalties is not preempted. (Petition at 18). *See, also, Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1198 (7th Cir. 1987) ("a dispute over compliance with the copyright licensing agreement raises questions of contract under state law, and can be determined in state courts").

If any conclusion can be drawn from the legislative history, it may be that each case must be decided on its own facts. The Eighth Circuit did not hold that no contract action could be preempted by the Copyright Act.

App. 19, n. 6. The determination of whether the claim asserted is qualitatively equivalent to a copyright claim is fact specific. In this case, the Eighth Circuit found the unauthorized use without copying of the Licensed Programs, as alleged in the pleadings under review, is not one of the exclusive rights of copyright. That fact-specific finding should not be disturbed. Clearly, the claim is not preempted.

d. National's "Functional Equivalence" Argument Is Without Support

National argued before the Eighth Circuit, without support, that its improper use should be considered the "functional equivalent" of a § 106(3) violation. National repeats the argument in its petition, again without support. (Petition at 24). National's argument was rejected by the Eighth Circuit. App. at 20. It should be rejected again. *See also, Columbia Pictures Indus., Inc., et al. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278 (9th Cir. 1989), *aff'd on other grounds after further proceedings*, 944 F.2d 1525 (9th Cir. 1991), *aff'd* ___ U.S. ___, 123 L.Ed.2d 611, 113 S.Ct. 1920 (1993), in which the Ninth Circuit rejected the same argument. Only Congress can redefine "distribution" to transform the right of a copyright owner to distribute copies into a right to distribute the "functionality" of software.[15]

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[15] The Court gave guidance regarding the interpretation of the Copyright Act in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984):

> Sound policy, as well as history, supports our consistent deference to Congress when major techno-

2. National's Contention Of Error In Interpretation Of The Pleadings Is Not A Special Or Important Reason To Justify Review

Finally, National's petition reduces itself to claims that the Eighth Circuit erred in its construction of Computer Associates' pleadings. (Petition at 23-24) National argues that the Eighth Circuit rejected the two most obvious interpretations of Computer Associates' allegation that National "permitted the use of the Licensed Programs for the benefit of third parties." National would have the Court read that phrase as an allegation that the Licensed Programs were distributed by National either to Tilden and Lend Lease or to EDS. (Petition at 24) In essence, National disputes the reasonableness of the Eighth Circuit's conclusions from the pleadings.

Even if National's arguments had merit, and they do not, this claim of error would not be a special or important reason sufficient to justify review on a writ of *certiorari*. Supreme Court Rule 10.1. Moreover, the Eighth Circuit specifically considered and rejected as unreasonable the inferences advanced by National. The Eighth Circuit noted that Computer Associates never alleged actual distribution to Lend Lease or Tilden – and that National admitted there had been no actual distribution. App at 9, n. 2. The Eighth Circuit further concluded that the phrase "permitted the use," when read in context,

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logical innovations alter the market for copyrighted material. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such a new technology.

alleged "that National permitted EDS to use the programs for the benefit of Lend Lease and Tilden, with no copies ever going to Lend Lease and Tilden." *Id.* As EDS was authorized under the Supplement Addendum to possess a copy of the programs, *id.* at 9-10, there was no allegation of unauthorized distribution of the Licensed Programs to any third party. The Eighth Circuit correctly applied the rule that, upon a motion for judgment on the pleadings, the facts as pled will be accepted as true and all reasonable inferences will be granted to the non-moving party.

CONCLUSION

There are no special or important reasons upon which to grant the petition. There is no conflict among the Circuit Courts of Appeal, and the decision of the Eighth Circuit is consistent with the prior decisions of this Court. Computer Associates respectfully requests that the petition for writ of *certiorari* be denied.

Respectfully submitted,

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APPENDIX

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III. COMPUTERS AND COPYRIGHT

A. Introduction

The Congress, in creating the Commission, directed that it address two broad subjects concerning computers and copyright – the creation of new works with computer assistance and the use of copyrighted works in conjunction with computers. With respect to the second subject the Commission has considered three separate issues – the placement into computers of any copyrighted works, the use of automated data bases and copyright protection for the intellectual property in computer program.

Because this study was to be undertaken, the Congress included a section in the new copyright law specifying that a copyright owner had the same rights with respect to computer uses of copyrighted works as were available under the copyright law prior to the effective date of the Act of 1976 – existing state statutes, case law and the provisions of the Copyright Act of 1909.[46] The legislative history of the 1976 Act clearly shows that the Congress intended that the provision would be continued, eliminated or modified based upon this Commission's recommendations.[47]

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Because of a lack of complete standardization among programming languages and hardware in the computer

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[46] 17 U.S.C. § 117

[47] *House Report, supra* note 1, at 116.

industry, one who rightfully acquires a copy of a program frequently cannot use it without adapting it to that limited extent which will allow its use in the possessor's computer. The copyright law, which grants to copyright proprietors the exclusive right to prepare translations, transformations and adaptations[63] of their work, should no more prevent such use than it should prevent rightful possessors from loading programs into their computers. Thus a right to make those changes necessary to enable the use for which it was both sold and purchased should be provided. The conversion of a program from one higher-level language to another to facilitate use would fall within this right, as would the right to add features to the program that were not present at the time of rightful acquisition. These rights would necessarily be more private in nature than the right to load a program by copying it and could only be exercised so long as they did not harm the interests of the copyright proprietor. Unlike the exact copies authorized as described above, this right of adaptation could not be conveyed to others along with the licensed or owned program without the express authorization of the owner of the copyright in the original work. Preparation of adaptations could not, of course, deprive the original proprietor of copyright in the underlying work.[64] The adaptor could not vend the adapted program, under the proposed revision of the new law,[65] nor could it be sold as the original, without the author's

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[63] 17 U.S.C. §§ 101 and 106(2).

[64] *Grove Press, Inc. v. Greenleaf Publishing Co.*, 247 F.Supp. 127 (E.D.N.Y. 1965).

[65] *See* Recommendations for new § 117, p. 30, *supra*.

permission.[66] Again, it is likely that many transactions involving copies of programs are entered into with full awareness that users will modify their copies to suit their own needs, and this should be reflected in the law. The comparison of this practice to extensive marginal note-taking in a book is appropriate – that note-taking is arguably the creation of a derivative work, but unless the note-taker tries to copy and vend that work the copyright owner is unlikely to be very concerned. Should proprietors feel strongly that they do not want rightful possessors of copies of their programs to prepare such adaptations they could, of course, make such desires a contractual matter.

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[66] 17 U.S.C. § 106(2) and *Gilliam v. American Broadcasting Co.*, 192 U.S.P.Q. 1 (2d Cir. 1976).